

WASHINGTON

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CABINET AFFAIRS STAFFING MEMORANDUM

Date: 1/9/84 Number: CA ID #168880 Due By: _____Subject: Information on Telephone Access Charge Legislation (S. 1660and H. R. 4102)

	Action	FYI		Action	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	CEA	<input type="checkbox"/>	<input type="checkbox"/>
Vice President	<input type="checkbox"/>	<input type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
State	<input type="checkbox"/>	<input type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input type="checkbox"/>	<input type="checkbox"/>	FCC	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Defense	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>	Baker	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Commerce	<input type="checkbox"/>	<input type="checkbox"/>	Clark	<input type="checkbox"/>	<input type="checkbox"/>
Labor	<input type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input type="checkbox"/>	Svahn	<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input type="checkbox"/>	<input type="checkbox"/>	McManus, Michael	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Energy	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input type="checkbox"/>	CCCT/Gunn	<input type="checkbox"/>	<input checked="" type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input type="checkbox"/>	<input checked="" type="checkbox"/>
USTR	<input type="checkbox"/>	<input type="checkbox"/>	CCFA	<input type="checkbox"/>	<input type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Simmons	<input type="checkbox"/>	<input type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>	CCMA/Bledsoe	<input type="checkbox"/>	<input type="checkbox"/>
VA	<input type="checkbox"/>	<input type="checkbox"/>	CCNRE/	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>			

REMARKS:

Attached, for your information, is the guidance developed by OMB on legislation (S. 1660 and H.R. 4102) pending in Congress which opposes the FCC Access Charge decision.



RETURN TO:

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TELEPHONE ACCESS CHARGE LEGISLATION
S. 1660 AND H.R. 4102

- I. S. 1660 (Packwood) is a slightly less damaging, but still unacceptable counterpart to H.R. 4102 (Wirth), which passed the House over strong Administration opposition. The Packwood bill would:
- A. Prohibit FCC from imposing a flat monthly "end user access charge" on residential users and business users with only one phone line until 1986.
 - B. Establish a new "Universal Service Fund" paid for by long distance callers to provide new subsidies to (1) local phone companies with higher than average costs (primarily in rural areas) and (2) subsidized "lifeline" telephone rates for low income persons.
 - C. Impose a new tax on telecommunications systems that bypass the local telephone company.
- II. No access charge bill passed by the Senate could be "safe", because the worst features of the Wirth bill could be reinserted in Conference Committee.
- A. The telecommunications industry is undergoing technological and regulatory changes at an unprecedented rate.
 - B. Any new legislation would prolong the current regulatory uncertainty and impose new costs on the industry of adapting to a new regulatory regime.
- III. No access charge legislation is necessary.
- A. FCC is phasing out a massive subsidy of local telephone companies by long distance callers.
 - 1. At present, interstate long distance callers pay a share of local telephone companies' fixed costs (non-traffic-sensitive or NTS costs) equal to 3.3 times their share of usage. For example, if 15% of the minutes of calling are

interstate long distance, then 50% of local NTS costs are recovered from long distance rates.

2. FCC's access charge plan, to take effect April 3, will reduce this unfair cross subsidy by recovering part of local phone companies' NTS costs from a new flat monthly charge on telephone lines (end user charge) rather than long distance rates. The end user charge will be \$2 monthly for residential phone lines in 1984, and up to \$6 monthly for business phone lines.

B. FCC's access charge plan will not lead to unreasonable rate increases.

1. Local telephone companies' recent rate increase requests will raise the amount they collect from ratepayers less than 8%. This is because 20% of the increase requests are merely accounting changes, and State regulators will probably grant less than 50% of the remainder. State regulators have historically held the line on local residential rate increases.
2. The new end user charge will be offset by lower long distance rates. AT&T will reduce long distance rates more than 10%, and MCI has announced that it will reduce its rates also, if the FCC plan takes effect.
3. FCC has already agreed to a new subsidy for lifeline telephone service for low income persons. FCC will waive the \$2 monthly charge for any subscriber to a State-approved lifeline service.
4. The plan developed by FCC's Federal/State Joint Board will protect high cost local phone companies. It provides a "high cost factor" subsidy that will prevent any local phone company from having to pay more than 156% of national average non-traffic-sensitive (NTS) costs per subscriber.
5. FCC is presently considering petitions to reexamine the difference between access charges paid by AT&T and by its long distance competitors, to assure fair competition.

IV. Either the Packwood or Wirth bill would add billions of dollars annually to long distance telephone bills.

- A. By delaying (Packwood) or cancelling (Wirth) FCC's planned access charges for residential and single line business users, the legislation would shift more than \$3 billion annually back onto long distance bills.
 - B. Both bills would create a new subsidy for "high cost" local phone companies, on top of the existing subsidy. The new subsidy would add \$200 million (Packwood) to \$500 million (Wirth) annually to long distance bills, and more in future years.
 - C. Both bills would create another new subsidy for lifeline service for low income persons, on top of the FCC's waiver of the two dollar monthly fee. This new subsidy would add \$200 million (Packwood) to \$1.5 billion (Wirth) annually to long distance bills, and more in future years.
- V. Artificially high long distance rates from either bill would be unfair and would damage the economy.
- A. Residential users generate more than 46% of the interstate calling (MTS/WATS) revenue, so they have a big stake in long distance rates.
 - B. Overpricing long distance service will hurt U.S. productivity and competitiveness increasingly as information becomes a more important input to all areas of industry and commerce.
 - C. Overpriced long distance will encourage large users to build their own systems that bypass the public telephone system to avoid paying the subsidy, even when this results in wasteful duplication of facilities.
- VI. Both bills impose a bypass tax that would retard innovation and impose huge administrative and litigative costs.
- A. Both bills would impose a charge on communications systems that bypass the local phone company. The bypasser would receive no benefit in exchange for this payment, so it is actually a tax.
 - B. The FCC and the courts would be flooded with wasteful litigation aimed at determining what communications services are or are not taxable. For example,

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services offered by cable television systems, and even by radio broadcasters, could arguably be taxed as "bypass" under either bill.

- C. Innovative new communications services would be delayed while lawyers argued over whether and how much they should be taxed as "bypass".

David Reed, x7231, January 6, 1984